



Tennessee State Board of Accountancy
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MINUTES

TENNESSEE STATE BOARD OF ACCOUNTANCY MEETING

June 17, 2002

The meeting of the Tennessee State Board of Accountancy convened in the Davy Crockett Tower, Nashville, Tennessee on June 17, 2002, at 8:00 am.

Members present were David Curbo, Vice-Chairman; Charles Frasier, Mark Layne, Mark King, Grady Williams, Mickey Ison, Deborah Henderson and Bill Dunavant.

Also present were Darrel Tongate, Executive Director; M. Connaught O'Connor, Staff Counsel; Leona Holston, Administrative Assistant; Linda Biek, Investigator; Dan Syriac, Administrative Manager and Brad Floyd, Executive Director of the TSCPA.

David Curbo called the meeting to order at 8:00am. He opened the meeting with an update on Dan Johnson's recovery from back surgery. Mr. Curbo announced that Micheal Vaughn was out of town and that Maxie Patton was ill and neither would be in attendance at today's Board Meeting.

David Curbo asked for a motion to approve the minutes from the March 28, 2002, Board meeting. Mark Layne motioned to approve the minutes for the March Board meeting. Deborah Henderson seconded the motion; it was voted on and passed.

Darrel Tongate presented the Executive Director's Report: (see attached report)

Darrel announced three Board Members with six years of service as Dan Johnson, Micheal Vaughn and David Curbo. Darrel presented David Curbo with a plaque for his years of service and will mail plaques to Mr. Johnson and Mr. Vaughn. Darrel also announced Brad Floyd of the TSCPA as a guest at today's meeting.

- 1) Darrel announced the next Board Meeting date as August 26-27, 2002.
- 2) NASBA Annual Meeting October 6-9. NASBA may pay for the new Board Members to attend.
- 3) Thank You to CPA Exam Proctors for May exam; Knoxville: Darrel and Mark King; Nashville: Micheal Vaughn and Charles Frasier; Memphis: Mickey Ison, Deborah Henderson and David Curbo.
- 4) Not in support of an RFP for the exam contract at this time.
- 5) Computer Based Testing to start in 2004. Exam contract signed.
- 6) Will Pugh was not nominated to Board of Directors at Large for NASBA.
- 7) The Sunset Bill was signed on May 22, 2002.
- 8) Will Pugh was our NASBA Regional Meeting representative since none of us was there.
- 9) We have a booth at the TSCPA Convention.
- 10) Exam conditioning requirements attached. Short discussion on grade release, timing and exam sites.
- 11) We are still waiting for Ethics Committee Report of the Proposed Ethics changes being worked on by NASBA.
- 12) NASBA Board Meeting minutes are available.
- 13) Enron/Anderson update from Connaught.
- 14) The Senate Bill has passed and is now law.

- 15) Rule change proposals to discuss later today.
- 16) Article from Will Pugh, "The Worm has turned." (Attached.)
- 17) Focus questions were reviewed and Mark King motioned to accept. Grady Williams seconded the motion; it was voted on and passed.
- 18) Independence Rule request from Ernest Baugh. (Attached.)
- 19) New York survey on the 150 hour rule and 24/24 or 30/30 accounting and business hours. A short discussion took place on the 150-hour rule with example situations of individuals who have a BA degree and 24/24 but cannot get the TN CPA certificate without meeting the 150 hours and the experience requirement. Connaught commented that now is a good time, since we are in the public eye, to change rules to strengthen the Accounting Profession.
- 20) September annual letter. Review and send any suggested changes to Darrel. (Attached)
- 21) Australia now has two (2) groups of accountants with which we have reciprocity agreement.
- 22) NASBA Exam Committee members are needed. Anyone interested in serving?
- 23) Three (3) CPA renewal applications have YES answers to question nine (9) regarding a felony conviction. Discussion took place of each individual circumstance, and the final recommendation was to drop the issue and renew the certificates. Grady Williams motioned to accept the recommendation. Mark Layne seconded the motion; it was voted on and approved.
- 24) The individual CPA/PA and Firm renewal forms need to be reviewed with recommendations for changes to be presented at the August Board Meeting.

HAPPY B-DAY TO LINDA

David Curbo offered Brad Floyd the opportunity to speak. Brad commented that he was in favor of the 150 hours with the 30/30 and he will take our concerns to his Board to consider.

BREAK

RECONVENE

Connaught O'Connor presented the Board with the process for informal hearings and Probable Cause.

- (a) Gather information and send out letter
- (b) Send to our Investigator Linda Biek, or Scotty Lewis if necessary, with a report to the Board.
- (c) Send letter to the practitioner for their response.
- (d) Informal Conference -- (1) Board Member, Darrel Tongate (Executive Director) and Connaught O'Connor (Board Legal Counsel) and the Practitioner. Discuss Background, Situation, Underlying Cause & Severity. Make an offer to the Practitioner, "I believe the Board would agree to....." The options are civil penalty, additional CPE over the 80 hours, pre-issuance reviews, and suspension of certificate or license. The Practitioner can accept or not. The objective of the Informal Conference is to reduce cost and time to the Board and the Practitioner and to be less intimidating to the Practitioner. Informal Conferences are to gain more information and are a teaching tool for the Practitioner. It is not the time for revocation. If the case is that severe, it needs to go to a Formal Hearing.
- (e) Consent Order draft by Connaught to be voted on and approved by the Board.
- (f) Formal Hearing -- If Practitioner rejects offer or Board Members think the case is too severe.
- (g) Administrative Law Judge with the Board as the jury. Board Legal Counsel is then the "State" vs the Practitioner.

Cases are not to be discussed between Board Members outside of Board Meetings or you will have to recuse yourself from the Formal Hearing.

Connaught O'Connor presented the Attorney's Report/Probable Cause Committee report (copy attached). Some changes were made to the report in the Committee meeting. New Case #3 -- Send to Investigations. New Case #47 -- Add "If the Practitioner does attest work after 3 years but within 5 years, he must get the CPE and have the pre-issuance reviews." New Case #53 -- Micheal Vaughn reviewed the case and recommends a Formal Hearing. New Case #37 -- Formal Hearing. Grady

Williams motioned to approve report as amended. Bill Dunavant seconded the motion; it was voted on and passed.

A discussion took place regarding one of the BIG CPA firms selling their Memphis, Chattanooga and Nashville offices. Deloitte bought the Memphis office and Ernst & Young bought the Nashville and Chattanooga offices. Connaught will send out notices to the acquiring firms and to the attorney that represents the selling firms notifying them of our law requiring notice to be sent to the Board Office within 30 days regarding any changes in address, ownership, entity, etc. Mickey Ison motioned to approve the Board's recommendation for Connaught to send the four letters (3 acquiring firms and 1 to selling firms' attorney). Grady Williams seconded the motion; it was voted on and passed.

Grady Williams presented the CPE Committee Report. Grady Williams motioned to approve the issuance of 79 new CPA certificates and 25 reciprocal CPA certificates whose experience and other qualifications had been approved by the Board's staff. Mark King seconded the motion; it was voted on and passed.

Mark King presented the Peer Review Committee Report. He reported that 508 firms are due peer reviews in 2002. Of those, 182 are scheduled, complete or exempt and 326 have not responded yet. Second notices will be mailed out the first week of July. Last year nine (9) consent orders were issued, seven (7) are in total compliance now and two (2) we have filed complaints against. The committee approved one request for exemption from peer review due to the firm not performing attest services any longer. It was clarified during the committee meeting that the experience affidavit as part of the initial firm permit application is only necessary if the firm does attest work. The committee agreed that firms using the AICPA/TSCPA peer review program must provide the State Board with a copy of the AICPA acceptance letter and the Reviewers report letter.

Darrel Tongate initiated a brief discussion on the CPA exam informing the Board of the 14-year contract with an evaluation to occur after seven years. The CPA exam price will be somewhere in the range of \$17 to \$20 per hour for seat time plus the NASBA and AICPA fees; bringing the price to around \$500. The current exam candidate price is \$315 (\$180 AICPA and \$135 NASBA). Exam retake prices will be prorated by the number of parts the candidate will be taking.

Old Business:

Darrel proposed the following rule changes: (see attached)

- 0020-1-.04(h) modify to say "\$50 per year."
- 0020-1-.04(i) "Late address change fee \$25."
- 0020-1-.06 delete first sentence in item number two.
- 0020-1-.08 (4) add ", when requested."
- 0020-1-.10 (1) change may to "must." And add ", and who wishes to be reinstated."
- 0020-1-.11 add an item (5), Internet practice rules (see attached).
- 0020-1-.13 add an item (e), notification and fee (see attached). David Curbo asked if our law provides for the Board to be able to set fees, then could we take all fees out of the Rules saying "Fees are set by Board Policy" and set Policy in place for each fee. Connaught O'Connor will research this and it will be discussed at the next Board Meeting.
- 0020-2-.02 (1), (2) & (3) change the 24 accounting and 24 business hours back to 30 accounting and 30 business. Also, delete (i) Computers and change (viii) to Technology/Information Systems. Mark Layne sparked a discussion regarding the impact on College and Universities if the hours were increased to 30/30. Grady Williams questioned if we should also return to the 6-tax hour and 6-audit hour requirement. Charles Frasier commented that since the structure of the CPA exam is not known exactly, there is "something to be said for us to go a little slow, until we are sure of the structure of the exam, rather than have to go back and change the rules again." Mr. Frasier and Mr. Layne agree that it would be good for the Board Members that have contact with educators to talk to them and get their comments on this.
- 0020-2-.03(d) change to meet the new experience policy.
- 0020-3-.03 (2)(c) add ", less than 5%."

- 0020-3-.03 add a (4) Ernest Baugh Rule (see attached).
- 0030-3-.04 add "disclosed or" between "any undisclosed." David Curbo disagreed with this rule change proposal. Darrel Tongate agreed to delete this rule change.
- 0020-3-.11 add a (3) requiring CPA to keep records for five years. There was a discussion on the definition of 'work papers.' David Curbo suggests that we poll other states regarding their work paper retention rules and definition of work paper and accounting services.
- 0020-5-.03 delete "computer science" from CPE rules.
- 0020-5-.04 (4) add "NASBA/QAS." at the end of the sentence.
- 0020-5-.06 (3) add "up to six months."
- 0020-5-.07(1) add "up to six months."
- 0020-6-.01(1) add "Board, the" in front of the word Tennessee.
- 0020-6-.05(1)(b) add "and completes a refresher course every five years."
- 0020-6-.04(1) add "after initial review, due August 31 of the next calendar year."
- 0020-6-.04 add (7) "the Peer Review Program of the Board does not provide for reviews of....." (see attached).

The Board Members agreed to study and investigate these rule changes and other rules and will vote at the next Board Meeting to approve submission of the changes for a Rule Making Hearing.

Charles Frasier opened a discussion regarding "accredited colleges" referred to on page forty-one (41) of the rules, 0020-2-.01 (2) and (5). "Do we want upper degree course credits to apply from a 2-year college /junior college?" Mr. Frasier will talk to other educators and come back with a report to the Board if this causes any issues with educators.

New Business:

There being no further business to come before the Board the meeting was adjourned.

CHAIRMAN

SECRETARY